STATINTL

MEMORANDUM FOR: [redacted]

FROM :

SUBJECT : Special Mutual Fund for Retirement

1. In your paper you made mention of the possibility of establishing a mutual fund especially for the long-term investment of retirement monies as an alternative to selecting and investing in one or more regular mutual fund(s).

Interesting possibility

2. My listing of addresses of "no-load" funds included one "low-load", FIRST MULTIFUND OF AMERICA. Here the concept is that of a mutual fund investing in a dozen or so other established mutual funds. Possibly the CIA pension trust could follow this approach, either through the FIRST MULTIFUND OF AMERICA or one similar in operation. Alternatively, our trust could act itself as fund manager and parcel out investment monies to a selected number of the leading mutual funds (leading in performance, management, and prospects).

Don't like

3. At this point, I invite your attention to COMPETITIVE CAPITAL FUND (prospectus dated Nov. 1, 1968 attached). It is based on the concept of "independent competitive multiple management." The fund manager (Competitive Capital Corp. in this case) parcels out the monies to be invested to five different and competing portfolio managers, who receive a fee ranging from 1/8th to 1/2 of 1% of the average net asset value of the amount in the portfolio managed by that portfolio manager. This particular fund started in March 1968 and had, by June 1968, about

$79 million in assets, so each portfolio manager (such as Arnold Bernhard & Co., which also manages the Value Line funds) was managing about $15 million (more or less) and entitled to receive a fee, depending on performance, in the range $18,000-$75,000.

a. If our fund reached a million, a fee of 1/2 of 1% would be only $5,000, so, presumably, a portfolio manager would want a larger fee for a portfolio of this size. I have seen offers of 2-4% as management fees for much smaller individual accounts, so, presumably, there would be considerable room for negotiation for our account, especially because it would increase through regular payroll deductions and perhaps through voluntary additions. I think CIA could obtain top quality portfolio management for something less than 2%, possibly as low as 1/2 of 1%. NOTE: This is a portfolio management fee, included in the costs of operation of all mutual funds, and should not be confused with the separate "load" or sales charge paid by the purchaser to buy a "load" mutual fund.

b. If this approach were adopted, we should not be bound by the sales charge schedule appearing in a typical mutual fund prospectus, but our trust, as fund manager, would set its own schedule, preparing its own prospectus. This could provide funds for covering the costs to the Government of operating the program.

c. At this stage, it seems preferable that prospectus preparation and other myriad details of organizing and running a fund be left with professionals, so the portfolio manager could be fund manager as well. In this case, our trust, in effect, would ask selected mutual fund managements to submit bids for organizing and running a specially tailored fund for long-term investment. Here we would have complete room for negotiation of such matters as charges, fees, services rendered.

d. If the TVA experience is useable as a guide, we might expect that our people would want: 80% growth fund, 19% growth and income fund and only about 1% income fund. Accordingly, if we go this route, it is recommended that we drop consideration of an income fund and consider either two portfolios, one growth (similar to Value Line Special Situations Fund) and one growth and income fund (similar to Value Line Fund or Investment Co. of America), or only one growth fund.

e. It should be cautioned that negotiations and arrangements and preparation of a special, new prospectus to clear the SEC all will take considerable time and probably should be viewed as a longer term exploration, probably well beyond the June 1969 target date. (This is my opinion; you might wish to engage in some tentative exploration with selected management companies as to likely time and other factors).

4. At this preliminary stage, it would seem that the paragraph 2 concept (above) would be simpler to implement within a near term period. Our CIA trust would use established well known mutual funds for portfolio management under existing prospectus sale. Yes!

a. The trustees, or an investment committee appointed by them, might allocate the purchase of monies, as received, among various mutual funds, providing maximum flexibility and responsiveness to changing conditions. The investors would share proportionally to their investment in the net asset value of the comingled funds in the trust. Let individual select

b. Alternately, a limited number of selected mutual funds, including no-load, load, and possibly closed end and/or dual purpose funds, might be selected and offered to the investors, i.e., each investor picks the amount and one (or more) of the funds as his choice (similar to insurance election that was offered to employees). This seems particularly desirable, because it places the responsibility for choice on the individual investor, rather than on the investment committee or trustees. Yes

c. In any event, it is urged that we avoid the TVA <u>one</u> management lock-in. Choice and flexibility (at least on an annual meeting approval basis) should be preserved and more than one fund management's selections should be available even if we forego a "guaranteed"

low rate (linked to long-term exclusive contract).

d. Please note that in mutual fund purchases, under prospectus-established sales charge, the cumulative total holdings in any one fund, or in two or more funds under one management, are used to determine the sales charge level, which reduces as various "break points" are reached. The reduced charge is also applicable for all purchases made under a letter of intention stating the total investment amount intended to be reached within 13 months - this would be a useful tool in dealing with periodic investments expected under payroll deductions. For the exact sales charge for any individual fund, the prospectus, of course, should be consulted. The following, however, gives a rough approximation of the range of sales charges and "break points" whether the latter are surpassed through accumulative purchases or by declaration under a letter of intention:

$15,000	7 1/2-7.75%
$25,000	5.0-6.75%
$50,000	3.5-5.75%
$100,000	2 1/2-4.75%
$250,000	2.0-2.75%
$500,000	1.0-2%
$1 million	1%

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Thus, if our trust had \$100,000 in Fund A (growth) and \$100,000 in Fund B (growth and income), both under the AB fund management company, and our trust expected to put in from payroll deductions somewhat more than \$50,000 in the coming year, the additional \$50,000, under letter of intention, would be invested at 2% charge (assuming AB fund had 2% charge at \$250,000 break point).